

VZCZCXRO1825
RR RUEHAG
DE RUEHAK #2010/01 1030418
ZNY CCCCC ZZH
R 130418Z APR 06
FM AMEMBASSY ANKARA
TO RUEHC/SECSTATE WASHDC 4778
INFO RUCNMEM/EU MEMBER STATES
RUEHIT/AMCONSUL ISTANBUL 0294
RUEKJCS/SECDEF WASHDC
RUCNDT/USMISSION USUN NEW YORK 1535
RUEUITH/ODC ANKARA TU
RHEHAAA/NSC WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEHBS/USEU BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 03 ANKARA 002010

SIPDIS

TREASURY FOR INT'L AFFAIRS - CPLANTIER
SIPDIS

E.O. 12958: DECL: 04/07/2011

TAGS: [EFIN](#) [MASS](#) [PREL](#) [EUN](#) [TU](#)

SUBJECT: [TURKISH ECONOMY MINISTER ON EU PROCESS, CONTINUED](#)

REFORMS, IMF

REF: A. ANKARA 1414
[1](#)B. ANKARA 1479
[1](#)C. ANKARA 1513
[1](#)D. ANKARA 1629
[1](#)E. ANKARA 1655

Classified By: Ambassador Ross Wilson for reasons 1.4 (b, d).

[1](#)1. (C) Summary: Turkish Minister of Economy and EU Accession lead negotiator Babacan described to the Ambassador on April 7 a fast-paced EU screening process that he expects to be completed by October, at the same time recognizing the political difficulties inherent in actual chapter negotiations. Babacan agreed on the need to keep the process moving forward by maintaining reform momentum and said further political and economic reforms are being prepared. Regarding the Central Bank Governor nomination and relations with the IMF, Babacan insisted the Government's policies had not and will not change. On all types of reforms -- EU, Cyprus, IMF, or labor market -- the challenge in the period leading up to Turkey's 2007 parliamentary election will be to avoid populism while also avoiding taking too big a domestic political risk. The Ambassador also raised the BTC-BOTAS dispute and U.S. defense company problems in Turkey. End Summary.

EU Process Like a Bicycle -- it Needs to Keep Moving Forward

[1](#)2. (SBU) In a meeting on the eve of his trip to the U.S. for the spring IMF/World Bank meetings, Babacan agreed with the Ambassador's analogy that the EU process is like a bicycle that needs to keep moving forward. Babacan described how the screening process was progressing, with phase one screening completed for 17 chapters and screening entirely completed for 14 chapters. Babacan expects to complete screening by October 15, and said this would be the fastest record among recent EU accession candidates. Babacan said some of his colleagues believe negotiation of the chapters could be concluded in three to four years, but Babacan himself thinks five to six years is more realistic. Babacan attributed Turkey's relative speed to its ten year-old customs union with the EU. Babacan described his strategy of empowering senior officials in line ministries in order to give them "ownership" in the process. To facilitate this, he asked the European Commission to have simultaneous translation for the screening sessions so non-English speaking figures can participate. Babacan said the World Bank Country Director,

on his return from a series of meetings with EU Commission DG's, told Babacan EU officials were impressed with the quality of Turkey's presentations.

13. (C) Babacan was well aware that politics will intrude in the negotiating process and "slow us down," as in the recent EU debate about adding political criteria to the Education chapter. Babacan noted that EU member states have been stuck on one paragraph for a month. The Ambassador said that although the United States is not a party, it would continue to try to be helpful. The Ambassador reminded Babacan of the Secretary's active engagement last October. On Turkey's EU

SIPDIS

accession and on the Cyprus issue, the Ambassador said the U.S. wanted to ensure the Europeans gave consideration to Turkey's election timing issues and avoided drawing lines in the sand. He urged Turkish leaders to convey a sense to Europe that the reforms are progressing, while at the same time constantly engaging in European capitals to build support that would help Turkey's sometimes-lonely EU champions.

14. (C) In terms of building a constituency in EU countries that would be more sympathetic to Turkey, Babacan was pleased by the recent acquisition of a \$2.7 billion stake in Turkey's Finansbank by the National Bank of Greece. He and the Ambassador agreed this was a powerful vote of confidence that Turkish-Greek relations would not return to the days of major tensions. Babacan agreed with the Ambassador that there was a regrettable asymmetry in Turkish-Greek bilateral investment, with only a few hundred thousand dollars of Turkish investment in Greece. Babacan said that Turkish companies have found Greek consumers resistant to buying Turkish products, whereas National Bank of Greece's market research found Turkish consumers would not be put off by

ANKARA 00002010 002 OF 003

Greek ownership of a Turkish bank. Babacan also pointed out the larger size of the Turkish market compared to any of the Balkan countries.

15. (C) On the pace of reforms, Babacan said the perception of a slowdown was natural after the extraordinary number of reforms Turkey pushed through in the run-up to the October 2005 start of negotiations. He said the Government was now in the process of preparing both a package of economic reforms and a package of political reforms -- the latter sort of a continuation of the Copenhagen criteria reforms. He said many of these items arose from the screening process. Examples include ethics rules for politicians, creation of a unit to monitor state subsidies to business (state aids), and a new law on voluntary foundations. Different agencies were fighting over who would oversee the state aids unit. Aside from legislative changes, there are also some reforms that can be implemented by regulation, such as adhering to commitments in Turkey's EU customs union agreement, for example with regard to the steel sector.

Cyprus Sensitivities

16. (C) The Ambassador described U.S. efforts at garnering renewed interest in Cyprus by Secretary General Annan. The Ambassador said the U.S. encouraged the technical talks both on their merits and to re-energize a UN process on Cyprus that would be helpful to everyone. Babacan said anything that Turkey did on Cyprus drew huge attention in Turkey, and after what happened with the Greek Cypriot rejection of the Annan Plan referendum it is very difficult for the Government to explain to the people any further unilateral moves. FonMin Gul's January 2006 proposal for the reciprocal opening of ports and airports was an attempt to get around this dilemma and the U.S. had supported it. Babacan lamented that it was very difficult to make progress in a dispute in

which one party benefits from the status quo.

Labor Market Reform -- and Pre-election caution

17. (C) Babacan reiterated that since the AKP government took power the economy had created over a million jobs, but that unemployment nevertheless remained high. In a conversation about how Estonia managed to be so successful, he recounted the the Estonian Prime Minister told him Estonia could not afford French or German levels of unemployment and had therefore avoided Franco-German style labor rules. Babacan recognized that Turkey's labor market suffered from some of the rigidities plaguing France and Germany, such as high severance payments, and said the Government would like to strike a balance closer to the U.S. or U.K. models of freer labor markets and fewer protections for employees. On the other hand, he said some of Turkey's rigidities were enacted by the Ecevit government just prior to the 2002 elections in a failed attempt to cater to public opinion. Once these kinds of measures were enacted, Babacan said, it was very difficult to rescind them, particularly this close to an election. He cited the case of Chancellor Schroder's pre-election reforms and his subsequent loss at the polls. Whether on Cyprus, labor market reforms or any other reforms, Babacan said the Government's pre-electoral challenge will be to avoid populist measures, without taking risks that amount to political suicide.

Mutual Understanding with the IMF

18. (C) The Ambassador conveyed U.S. business community concerns about the Government's handling of the nomination of a new Central Bank Governor. The Ambassador thought it might be useful for Babacan to find opportunities on his upcoming U.S. trip to reiterate the GOT's commitment to reform policies, particularly in light of the Central Bank Governor situation and the recent VAT rate cut for the textile sector. Babacan agreed. He said the Government believed the rate cut was a good measure and that he had had long conversations with IMF Deputy Managing Director Krueger and Europe Director Deppler about it. Babacan asserted that after three years,

ANKARA 00002010 003 OF 003

"we understand each other." Babacan said he would be speaking to investor groups in the U.S. and said Turkey's problems with the IMF and the Central Bank Governor nomination had been overstated because they coincided with a broader Emerging Markets sell-off. Babacan said the new Central Bank Governor might even travel with him to the U.S., since he was going to submit the cabinet decree to President Sezer immediately following his meeting with the President. (Babacan did not reveal the name of the nominee.)

BTC Pipeline Dispute and U.S. Defense Procurement

19. (C) The Ambassador briefed on the Baku-Tbilisi-Ceyhan (BTC) consortium's cost overrun dispute with Turkish pipeline company BOTAS, which Babacan did not seem aware of. The Ambassador said going to arbitration would be undesirable for all, urged a mutually-agreeable negotiated solution, and said BOTAS will ultimately need political cover for any such settlement. Babacan asked Treasury Deputy Under Secretary Cavit Dagdas, who participated in the meeting and has responsibility for foreign investment, to make a note of the issue.

110. (C) The Ambassador also pointed out U.S. defense companies' increasing problems with Turkish procurement policies and passed on a copy of his recent letter to Minister of Defense Gonul. Babacan only said that Sikorsky

had been to see him. The Ambassador pointed out that defense companies had historically been key supporters of the bilateral relationship in the U.S. and were a major pillar of the ATC; alienating them would not help build support for Turkey or U.S.-Turkish relations.

Visit Ankara's Classified Web Site at
<http://www.state.sgov.gov/p/eur/ankara/>

WILSON